

HON. RICARDO S. MARTINEZ

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

CASCADE YARNS, INC., a Washington
Corporation,

Plaintiff,

vs.

KNITTING FEVER, INC., a New York
Corporation, DESIGNER YARNS, LTD., a
corporation of England, FILATURA
PETTINATA V.V.G. DI STEFANO
VACCARI & C. (S.A.S.), and entity organized
or existing under the laws of Italy, SION
ELALOUF, an individual, DIANE ELALOUF,
an individual, JAY OPPERMAN, an individual,
DEBBIE BLISS, an individual, DAVID
WATT, an individual and DOES 1-50

Defendants.

Case No. 2:10-cv-00861 RSM

**FIRST AMENDED COMPLAINT
FOR UNFAIR COMPETITION,
FALSE ADVERTISING AND
BUSINESS INJURY BY A
RACKETEER INFLUENCED AND
CORRUPT ORGANIZATION**

JURY DEMAND

COMES NOW Cascade Yarns, Inc. ("Cascade"), by and through counsel, and files this
Complaint and in support thereof alleges as follows:

INTRODUCTION

1. To better "compete" in the importation, marketing, distribution and sale of high-
end designer handknitting yarn, defendants KNITTING FEVER, INC. ("KFI"), DESIGNER
YARNS, LTD. ("Designer Yarns"), FILATURA PETTINATA V.V.G. DI STEFANO

1 VACCARI & C. (S.A.S.) (“VVG”), SION ELALOUF, DIANE ELALOUF, JAY OPPERMAN,
2 DAVID WATT and DEBBIE BLISS (collectively, “Defendants”) engaged in a concerted
3 scheme, beginning nearly a decade ago, to defraud consumers and injure their competitors by
4 making literally false representations regarding the fiber content of certain yarn products,
5 including but not necessarily limited to the *Noro Silk Garden*, *Debbie Bliss Cashmerino*, *Elsebeth*
6 *Lavold Silky Wool* and *Louisa Harding Cashmere* brands. Defendants’ conduct caused harm to
7 its competitors, including Cascade, by driving customers away from purchasing Cascade’s
8 products in the false belief the KFI’s competing products were of similar content and of equal
9 quality.

10 2. Cascade is one of the nation’s finest purveyors of yarns and sells its products
11 through specialty retailers and boutiques throughout the United States. Cascade is one of KFI’s
12 chief competitors in the wholesale yarn marketplace. Cascade’s products include many yarns
13 containing a mix of wool and other natural fibers such as kid mohair, silk and cashmere. KFI
14 similarly sells its products through retailers and boutiques throughout the United States.

15 3. On information and belief, in order to make an unreasonable profit and to undercut
16 its competitors’ (including Cascade’s) business, beginning sometime in the early 2000s and
17 certainly no later than 2006, KFI began selling products that had literally false labels
18 misrepresenting the products’ cashmere, kid mohair and/or silk content. The literally false labels
19 allowed KFI to sell their products for a significantly lower price than Cascade’s products, thereby
20 damaging Cascade in the form of lost profits and business injury.

21 **THE PARTIES**

22 4. **Cascade** is a Washington corporation having a principal place of business at 1224
23 Andover Park East, Tukwila, Washington 98188.

24 5. **KFI**, on information and belief, is a corporation organized and/or existing since
25 1980 under the laws of the State of New York. On information and belief, KFI has its principal
26 place of business at 315 Bayview Avenue, Amityville, New York, 11701-2801.

1 6. **Designer Yarns**, on information and belief, is a closely held corporation organized
2 under the laws of England with a principal place of business at Unit 8-10 Newbridge Industrial
3 Estate, Pitt Street, Keighly, West Yorkshire, United Kingdom, BD21 4PQ. On information and
4 belief, Designer Yarns holds a license for the international marketing of handknitting yarns
5 bearing the Debbie Bliss brand name and has a distributorship agreement with KFI by which KFI
6 is the exclusive U.S. importer and distributor of yarns marketed by Designer Yarns. On
7 information and belief, defendant Sion Elalouf and/or KFI control Designer Yarns.

8 7. **VVG**, on information and belief, is a closely held entity organized or held under
9 the laws of Italy with a principal place of business at 11 Via Gianasso, 13871 BENNA (BI)
10 ITALIA. On information and belief, VVG brokered (*i.e.*, identified and arranged for
11 manufacture) yarns for the KFI and Debbie Bliss brand names, including but not necessarily
12 limited to the mislabeled yarns described in this Complaint. On information and belief, Sion
13 Elalouf exerts significant, if not complete, control over VVG.

14 8. **Sion Elalouf** is a natural person and, on information and belief, resides at 22
15 Longwood Road, Port Washington, New York 11050-1260. On information and belief, since
16 1980, Mr. Elalouf has been the sole or controlling shareholder and chief executive of KFI and has
17 been and continues to be responsible for setting KFI's trade policies and practices. On
18 information and belief, except where explicitly stated otherwise, Mr. Elalouf has actively
19 participated in the tortious, fraudulent and wrongful conduct that is the subject of this Complaint,
20 including but not limited to falsely advertising and labeling goods distributed in interstate and/or
21 foreign commerce, committing predicate acts of racketeering (including wire fraud and mail
22 fraud), conspiring with the other defendants to engage in acts to further the racketeering scheme
23 and causing harm to Cascade's business by the acts of that racketeering enterprise. On
24 information and belief, Mr. Elalouf operates KFI as his alter ego.

25 9. **Diane Elalouf** is a natural person and, on information and belief, resides at 22
26 Longwood Road, Port Washington, New York 11050-1260. On information and belief, at times

1 material to this Complaint, Mrs. Elalouf was and continues to be a KFI officer, director or
2 shareholder. On information and belief, Mrs. Elalouf has access to and responsibility for
3 reviewing, approving and paying invoices from KFI's foreign suppliers.

4 10. **Jay Opperman** is a natural person and, on information and belief, resides at 78
5 Clinton Avenue, Montclair, New Jersey 07042-2116. On information and belief, as recently as
6 2002, Mr. Opperman has held himself out as an independent sales representative of KFI, and
7 more recently as KFI sales manager responsible for managing a national sales force tasked with
8 "pushing" sales of handknitting yarn products to retailers. On information and belief, since 2001,
9 Mr. Opperman is a director of, and one of the registered owners of, the shares of Designer Yarns,
10 Ltd. On information and belief, at all time relevant to this Complaint, Mr. Opperman actively
11 participated in the wrongful conduct that is the subject of this Complaint, including but not
12 limited to making false representations of the fiber content of KFI's yarn products and thereby
13 causing injury to Cascade.

14 11. **Debbie Bliss** is a natural person and, on information and belief, is a subject of the
15 United Kingdom residing at 9 Folkestone Road, Walthamstow, London, United Kingdom, E17
16 9SD. On information and belief, in late 1999, and no later than June 2000, Ms. Bliss desired to
17 create her own handknitting yarn brand name that would sell a range of value-priced yarns for
18 sale in her retail yarn business. On information and belief Ms. Bliss has licensed her name to
19 Designer Yarns for the development and marketing of a series of yarns branded under her name.
20 On information and belief, under the terms of that license, Ms. Bliss has reserved the
21 responsibility for assuring the quality for handknitting yarns branded with her name. Since 2001,
22 Ms. Bliss has regularly traveled to the U.S. for the purpose of promoting yarn products with her
23 brand name. On information and belief, Ms. Bliss has participated and facilitated the wrongful
24 conduct described in this Complaint.

25 12. **David Watt** is a natural person and, on information and belief is a subject of the
26 United Kingdom. On information and belief, Mr. Watt's business address is Designer Yarns,

1 Ltd., Unit 8-10 Newbridge Industrial Estate, Pitt Street, Keighly, West Yorkshire, United
2 Kingdom, BD21 4PQ. Mr. Watt is actively involved in the management of Designer Yarns, and,
3 on information and belief, at all time material to this Complaint, was an active participant in the
4 scheme alleged herein.

5 13. Cascade does not know the true names and capacities of Does 1 through 50 and
6 will seek to amend this complaint to set forth their true names and capacities when ascertained.
7 Cascade is informed and believes and on that basis, alleges that each of these fictitiously named
8 defendants is responsible in some manner for the acts and damages alleged below.

9 **JURISDICTION AND VENUE**

10 14. This Court has subject matter jurisdiction over counts one and four pursuant to 28
11 U.S.C. §§ 1331 and 1338, based upon the federal causes of action asserted. This Court has
12 supplemental jurisdiction over the remaining counts pursuant to 28 U.S.C. § 1367.

13 15. Personal jurisdiction and venue are proper in this Court pursuant to 28 U.S.C.
14 § 1391 and 18 U.S.C. § 1965 because Defendants transact business in this district, are found in
15 this district, and/or directed conduct at this forum. In addition, the Alien Venue Act, 28 U.S.C.
16 § 1391(d) provides that “an alien may be sued in any district.” Designer Yarns is an alien
17 corporation organized under the laws of England, VVG is an alien entity organized and/or
18 existing under the laws of Italy and Ms. Bliss is an alien natural person.

19 **FACTUAL BACKGROUND**

20 **I. KFI DISCOVERS CASHMERINO -- A YARN THAT HAS THE SAME LOOK AND FEEL AS A**
21 **CASHMERE-CONTAINING YARN BUT CONTAINS NO CASHMERE**

22 16. KFI is a participant in the U.S. wholesale market for handknitting yarns. In 2005,
23 KFI claimed to be the leading wholesale supplier to specialty retailers.

24 17. During the 1990s, a KFI competitor experienced success with a premium
25 “designer” line of premium, natural fiber handknitting yarn that, while branded with a specific
26 designer’s name, was controlled by the wholesaler-importer.

1 18. On information and belief, upon seeing the success of its competitor, KFI began
2 investigating creating its own KFI-controlled designer labeled handknitting yarn.

3 19. On information and belief, in the late 1990s, Ms. Bliss was also attempting to
4 develop her own line of value-priced yarns that would be sold under her brand name.

5 20. On information and belief, sometime between 1999 and 2001, and certainly by
6 June 2001, Ms. Bliss became aware of KFI, Mr. Elalouf and an Italy-based yarn, supplier and/or
7 manufacturer, VVG .

8 21. On information and belief, sometime between late 1999 and 2001, and certainly by
9 June 2001, Mr. Elalouf and/or KFI entered into an agreement with Ms. Bliss whereby Ms. Bliss
10 agreed to hold herself out as the creative source of the Debbie Bliss brand of yarns, Ms. Bliss
11 would promote the sale of products bearing the Debbie Bliss brand name and Ms. Bliss would
12 design handknitting patterns that would be sold in connection with the Debbie Bliss branded yarn.

13 22. On information and belief, to implement the plan to develop a designer yarn that
14 Mr. Elalouf and KFI could control, Mr. Elalouf and Mr. Opperman, possibly with the help of
15 others whose identities not yet known to Cascade, created a company, Designer Yarns, to hold the
16 brand names and distribution rights to the to-be-created designer yarn product. On information
17 and belief, on or around April 12, 2001, a certificate of incorporation was issued to Designer
18 Yarns in England.

19 23. On information and belief, Designer Yarns entered into an agreement whereby
20 KFI is the sole U.S. importer-wholesaler of its products.

21 24. On information and belief, Designer Yarns entered into an agreement whereby
22 Debbie Bliss has licensed her name to Designer Yarns to be used as a brand name on yarn
23 products marketed as Debbie Bliss yarns. Debbie Bliss agreed to further promote these products
24 by regularly attending trade shows in the United States and by making numerous sales and
25 marketing appearances in the United States at the direction of Mr. Elalouf and KFI. Upon
26 information and belief, Plaintiff understands that Ms. Bliss will travel to Columbus, Ohio in June

1 2010, Philadelphia, Pennsylvania in June 2010 and Seattle, Washington in August 2010 to
2 promote KFI's products and/or her branded products.

3 25. On information and belief, to avoid the U.S. Customs scrutiny of transactions
4 between related parties, Mr. Elalouf is not disclosed as a shareholder, director or participant in
5 Designer Yarns.

6 26. On information and belief, despite the lack of an official status as a shareholder,
7 director or participant in Designer Yarns, Mr. Elalouf maintains access to Designer Yarns though
8 Mr. Opperman's equity and directorship roles. On information and belief, Mr. Elalouf maintains
9 intimate involvement and ultimate control over Designer Yarns' products, including the Debbie
10 Bliss brand.

11 27. On information and belief, Mr. Elalouf determines, among other things, (1) the
12 specific products marketed internationally as manufactured for Designer Yarns; (2) the fiber
13 content of Designer Yarns' products; (3) the pricing of Designer Yarns' products; (4) the
14 promotion and advertising of Designer Yarns' products; and (5) personally represents Designer
15 Yarns in negotiations with its Canadian distributor and at tradeshow in Germany, Italy and other
16 European countries.

17 28. On information and belief, between July 2000 and June 2001, Mr. Elalouf
18 discovered two versions of a yarn called Cashmerino -- one of which contained cashmere and the
19 one which did not contain any cashmere.

20 29. The discovery of the two versions of Cashmerino was significant because, on
21 information and belief, Mr. Elalouf, who was extensively experienced in the yarn trade, was
22 unable to distinguish between the cashmere and non-cashmere versions of the yarn. Indeed,
23 without expert fiber analysis -- something to which the majority of KFI's and Cascade's
24 customers do not have access -- it is virtually impossible to confirm the presence of cashmere is a
25 spun yarn.

1 30. On information and belief and through processes currently unknown to Cascade,
2 no later than October 2001 and continuing through the present, among the many legitimate
3 employees and/or contractors at KFI, only Mr. and Mrs. Elalouf had access to documents
4 concerning the yarns imported and wholesaled by KFI. On information and belief, Mrs. Elalouf
5 had sole responsibility to scrutinize, approve and pay manufacturers' and suppliers' invoice and,
6 therefore, had sole access to the information regarding the attendant fiber content of the yarns
7 made by KFI's suppliers and manufacturers. On information and belief, this allowed Mrs.
8 Elalouf to prevent regular KFI employees from learning the invoiced purchase values of goods
9 imported and eventually resold by KFI, from learning the true source of the products imported
10 and eventually resold by KFI, and from learning the actual fiber content of goods imported and
11 eventually resold by KFI.

12 **II. KFI DECIDES TO CASH IN ON NON-CASHMERE CASHMERINO**

13 31. On information and belief, following his discovery of the two versions of the
14 Cashmerino Yarn, on a date presently unknown to Cascade but believed to be before June 9,
15 2001, Mr. Elalouf and Designer Yarns entered into an agreement to substitute the 0% cashmere
16 version of the product for the Cashmerino spun of 12% cashmere.

17 32. On information and belief, following the agreement described above, Alberto
18 Oliaro, VVG's principal officer, was directed by Mr. Elalouf to and actually did manufacture the
19 0% cashmere yarn but nevertheless labeled the finished product as containing 12% cashmere.

20 33. On information and belief, on a date presently unknown to Cascade but believed to
21 be before June 9, 2001, the 0% cashmere Cashmerino (labeled as containing 12% cashmere) was
22 included in the new line of Debbie Bliss yarns to be launched by Designer Yarns.

23 34. The 0% cashmere version of Cashmerino was subsequently imported into the U.S.
24 by KFI and was sold, using means of interstate and/or foreign commerce, to retailers throughout
25 the U.S. under the Debbie Bliss brand name from Designer Yarns.

1 35. On information and belief, the non-cashmere Cashmerino was formally introduced
2 at a June 9-11, 2001 U.S. trade show for the yarn industry.

3 36. On information and belief, even prior to its formal introduction Mr. Opperman, in
4 his role as an independent sales representative for KFI, represented that a new KFI product, called
5 Cashmereno DK, contained 55% merino wool, 33% microfiber and 12% cashmere.

6 37. On information and belief, based on Mr. Opperman's representations as to the
7 fiber content of the Cashmereno DK product, certain of Cascade's customers bought the
8 Cashmereno DK instead of comparable Cascade products.

9 38. On information and belief, between August 2001 and continuing at through the
10 present, KFI regularly used the United States Mail and interstate wires to issue to as many as
11 2,000 specialty yarn retailers throughout the U.S. price and product lists identifying the KFI and
12 Debbie Bliss Cashmerino products as spun of a fiber content consisting of 55% merino wool,
13 33% microfiber and 12% cashmere.

14 39. On information and belief, based on the representations contained in KFI's price
15 and products list, certain of Cascade's customers bought the KFI and Debbie Bliss Cashmerino
16 products listed as being spun of a fiber content consisting of 55% merino wool, 33% microfiber
17 and 12% cashmere instead of comparable Cascade products.

18 **III. TRUE CONTENT OF KFI'S FALSELY LABELED CASHMERINO COMES TO LIGHT**

19 40. In early 2006, Cascade became aware of the extent of KFI's enormous success
20 with its Cashmerino line of yarn products.

21 41. Cascade then contacted the Cashmere and Camel Hair Manufacturers Institute
22 ("CCMI") and submitted a sample of KFI's Cashmerino yarn purportedly containing 12%
23 cashmere for fiber testing. CCMI informed Cascade that it had submitted the sample to K.D.
24 Langley Fiber Services ("K.D. Langley") for testing. On May 26, 2006, Langley issued a report
25 and concluded that "[n]o cashmere fibers were observed."
26

1 42. As noted above, because it is impossible to determine the true fiber content of spun
2 yarn without expert fiber test results, Cascade was ignorant of the true fiber content of the
3 mislabeled KFI products until the release of the May 26, 2006 test results.

4 43. At The National Needlework Association trade show, which took place on June 10
5 through June 12, 2006 in Indianapolis, Indiana, test results showing that KFI's Cashmerino yarn
6 products did not contain any cashmere became known.

7 44. On June 22, 2006, Mr. Elalouf contacted Cascade by telephone and left a message
8 for Robert Dunbabin, Sr. to call. Robert Dunbabin, Jr., of Cascade, returned this call by cellular
9 telephone. During the course of the conversation Mr. Elalouf represented to Mr. Dunbabin that
10 he was not surprised that the test results did not show cashmere because, according to Mr.
11 Elalouf, the type of cashmere that KFI uses will not show up in fiber tests. In an effort to further
12 his scheme, Mr. Elalouf threatened Mr. Dunbabin, Jr. with litigation if Cascade did not seek to
13 dispel "rumors" about the lack of cashmere content in the Cashmerino yarns.

14 45. On June 27, 2006, Roy A. Klein, an attorney working on behalf of KFI, Designer
15 Yarns and Ms. Bliss sent a letter by U.S. mail and facsimile to Cascade. In that letter, Mr. Klein
16 accused Cascade of misrepresenting the fiber content of Debbie Bliss Cashmerino. Mr. Klein's
17 letter also represented that KFI had independent lab reports showing that KFI's yarn "indeed has
18 the cashmere content indicated on its label." Mr. Klein's letter further demanded a public
19 apology, to be approved by KFI in advance, and that should Cascade refuse to issue such an
20 apology, KFI, Ms. Bliss and Designer Yarns would "not hesitate to pursue all appropriate rights
21 and remedies to recover compensatory and punitive damages for [Cascade's] tortious and illegal
22 conduct." On information and belief, Mr. Elalouf directed Mr. Klein to send the June 27, 2006
23 letter and to make the representations contained therein.

24 46. On June 28, 2006, counsel for Cascade responded to Mr. Klein's letter and
25 explained that Cascade had not made any misrepresentation. Cascade's counsel's June 28 letter
26 further requested information regarding KFI's test results.

1 47. On July 11, 2006, Mr. Klein responded to Cascade's counsel via facsimile and,
2 while asserting that fiber tests for cashmere content in spun yarn are inherently unreliable,
3 attached copies of test results purporting to show that Debbie Bliss Cashmerino yarns contained
4 cashmere. On information and belief, Mr. Elalouf directed Mr. Klein to send the July 11, 2006
5 letter and to make the representations contained therein.

6 48. On July 17, 2006, Cascade's counsel responded to Mr. Klein. Cascade's counsel
7 challenged the assertion that it is difficult to test for cashmere content and explained that K.D.
8 Langley used a reliable testing protocol approved by the American Association of Textile
9 Chemists and Colorists when he examined the fiber content of Debbie Bliss Cashmerino yarn.

10 49. On July 20, 2006, KFI distributed by electronic mail and by U.S. mail, an open
11 letter to its customers in which it represented that Debbie Bliss Cashmerino yarn contains
12 cashmere. On information and belief, the July 20, 2006 letter was authored by Mr. Elalouf and
13 Mr. Klein.

14 50. On July 22, 2006, David Watt wrote to Sion Elalouf via email and suggested that
15 Mr. Elalouf take a different approach to quieting the rumors about Debbie Bliss Cashmerino. Mr.
16 Watt suggested that attacking Mr. Langley's expertise of testing for cashmere would be
17 counterproductive, but that KFI should criticize the fact that Cascade had based its disclosure
18 solely upon one test. Mr. Watt expressed that this strategy would allow KFI to take the "moral
19 high ground."

20 51. On July 25, 2006, Sion Elalouf wrote to VVG in an effort to obtain a "test report"
21 that would placate A.C. Moore over concerns that the Luxury Cashmere Aran products that KFI
22 supplied to them actually contained cashmere. Mr. Watt was copied in this letter and actively
23 involved in this and the cover-up regarding the fiber content of the other Cashmerino products.

24 52. Sometime in the Summer of 2006, an industry publication known as Yarn
25 Marketing News contacted Cascade and offered to publish a retraction and public apology on
26 Cascade's behalf, for any claims about the cashmere content of KFI's products. Yarn Marketing

1 News indicated that this was being arranged by KFI and that KFI would bear the costs associated
2 with this purported retraction and apology. Cascade declined this offer.

3 53. On or around September 26, 2006, amidst the growing controversy in the hand
4 knitting yarn community, Debbie Bliss sent a letter, on information and belief by U.S. mail, to a
5 number of yarn stores throughout the United States. In the September 26 letter, Ms. Bliss
6 represents that the Debbie Bliss branded yarns contain cashmere. On information and belief, Mr.
7 Elalouf directed Ms. Bliss to send the September 26 letter and to make the representations therein.

8 54. KFI responded to the growing controversy regarding its yarns, and the increase of
9 retailer testing of its products by liquidating its intentionally mislabeled yarns, without correcting
10 the labels or informing the purchasers of the problem. For example, on information and belief in
11 or around August 2006, one of KFI's customers, A.C. Moore, raised concerns regarding the
12 cashmere content of certain KFI-supplied products, whose labels stated that the product contained
13 6% cashmere. KFI, despite its repeated criticism of results from CCMI-approved fiber testing
14 laboratories, advised A.C. Moore to engage a testing facility recommended by CCMI. On
15 information and belief, A.C. Moore then had the suspect product tested and the test results
16 revealed that the product had 0% cashmere. On information and belief, when Mr. Elalouf was
17 informed of these results, and with knowledge of those results, stated that the product was fine
18 and that A.C. Moore should sell through its current inventory and the inventory that KFI was
19 holding for A.C. Moore.

20 55. On information and belief, Mr. Elalouf, with the advice of Mr. Klein, contacted
21 VVG and reformulated a number of the "cashmerino" type products. On information and belief,
22 this led to a letter from VVG to Mr. Watt and Mr. Elalouf outlining VVG's view of the situation.
23 On information and belief, in this letter, VVG stated that "if everybody start[s] testing everything
24 on the market the consequences would be big war and everybody will only get problems." On
25 information and belief, VVG further sated that "there is no need to use the best cashmere qualities
26 because nobody would feel the difference." On information and belief, VVG nevertheless noted

1 that "if there are these kind of risks, we need to seriously think how to proceed in the future." On
2 information and belief, VVG advised that there were three possibilities, "a) we continue so as
3 done so far, if we think the risks are not too big. b) we stop this kind of blend. c) we change
4 the blend and use the best possible cashmere quality, which will be easier to find in case of lab
5 check. Of course the price would change."

6 56. On information and belief, the communications between VVG, Mr. Watt and Mr.
7 Elalouf led to a reformulation of certain of Defendants' products. On information and belief,
8 prior to this, Cashmere was wholly absent and was replaced by surplus acrylic: dyelots of this
9 type contained no letter. After this dyelots with a "B" or a "C" were introduced. On information
10 and belief, these dyelots contained some cashmere, but materially less than the amount stated on
11 the label. On information and belief, these dyelots "B" and "C" had surplus wool, unlike surplus
12 acrylic in the pre-June 2006 "no letter in dyelot" versions of the yarn. On information and belief,
13 the purpose for this change was to make detection more difficult by including some cashmere and
14 keeping the easily detectable acrylic fiber content consistent with the labeling. On information
15 and belief, Mr. Klein advised Mr. Elalouf that this change would make charges of intentional
16 mislabeling more difficult to establish. Upon information and belief, and despite knowledge of
17 the mislabeling, Defendants continued to market, sell and ship mislabeled product through at least
18 December 2008. Upon information and belief, those customers who had previously complained
19 about the lack of cashmere received product that contained some amount of cashmere, identified
20 as dyelots "B" and "C." Upon information and belief, for a short period of time KFI placed the
21 "no letter in dyelot" product on closeout for liquidation but stopped that course of action because
22 of inquiries it received from the customers as to why the product was on closeout and, thereafter,
23 continued to sell and ship the "no letter in dyelot" product as described herein.

1 **IV. WHEN KFI'S CUSTOMERS COMPLAIN ABOUT THE LACK OF CASHMERE, KFI**
2 **RESPONDS BY BRINGING LAWSUITS**

3 57. On information and belief, in 2006 certain of KFI's customers began complaining
4 about the fiber content of certain of its yarn products. On information and belief, when KFI
5 received complaints from its customers, it actively discouraged the customers from having
6 independent testing of the yarns' fiber content conducted. On information and belief, KFI offered
7 to sign "letters of guarantee" that were drafted by Mr. Klein and would not have effectively
8 insulated KFI's customers from liability from selling mislabeled products. On information and
9 belief these complaints led to disputes between KFI, on the one hand, and certain of its customers,
10 on the other.

11 58. On information and belief, in furtherance of the unlawful conduct that is the
12 subject of this complaint, KFI instituted lawsuits against certain of its customer, including but not
13 limited to the following yarn stores: Knit and Purl in Rochester New York; Red Needle in
14 Savannah, Georgia; NY Knits in Victor, New York; Charlotte's Fiber, Brevard, North Carolina;
15 and A.C. Moore in New Jersey. On information and belief, Mr. Elalouf directed KFI to undertake
16 these lawsuits to collect on debts incurred for purchases of yarn with labels that were literally
17 false as to the fiber content of the yarn.

18 **V. NUMEROUS INDEPENDENT TESTS CONFIRM THAT KFI HAS ATTACHED LITERALLY**
19 **FALSE LABELS TO CERTAIN YARN PRODUCTS SINCE AT LEAST 2006 AND CONTINUING**
20 **TO THE PRESENT**

21 59. In addition to the May 26, 2006 test described above, numerous other independent
22 test confirm that KFI has used literally false labels on certain of its yarn products.

23 60. On July 18, 2006, K.D. Langley issued a fiber content test report to one of KFI's
24 customers for Debbie Bliss baby cashmerino yarn. The label for this product represented that it
25 contained 12% cashmere. K.D. Langley's test results state that "[n]o cashmere fibers were
26 observed" in the yarn sample. A true and correct copy of the results of the July 18 report is
attached as **Exhibit A**.

1 61. On July 18, 2006, K.D. Langley issued a fiber content test report to one of KFI's
2 customers for KFI Cashereno yarn. The label for this product represented that it contained 12%
3 cashmere. K.D. Langley's test results state that "[n]o cashmere fibers were observed" in the yarn
4 sample. *See Ex. A.*

5 62. On July 18, 2006, K.D. Langley issued a fiber content test report to one of KFI's
6 customers for Debbie Bliss cashmerino aran yarn. The label for this product represented that it
7 contained 12% cashmere. K.D. Langley's test results state that "[n]o cashmere fibers were
8 observed" in the yarn sample. *See Ex. A.*

9 63. On July 25, 2006, K.D. Langley issued a fiber content test report to one of KFI's
10 customers for Debbie Bliss cashmerino aran yarn. The label for this product represented that it
11 contained 12% cashmere. K.D. Langley's test results state that "[n]o cashmere fibers were
12 observed in the sample." A true and correct copy of the results of the July 25 report is attached as
13 **Exhibit B.**

14 64. On August 31, 2006, Specialized Technology Resources, Inc. ("STR") issued a
15 test report to one of KFI's customers for Debbie Bliss Baby Cashmereno. The label for this
16 product represented that it contained 12% cashmere. STR's test results state that "[t]here was no
17 cashmere" in the yarn sample. A true and correct copy of the results of the August 31 report is
18 attached as **Exhibit C.**

19 65. On August 31, 2006, STR issued a test report to one of KFI's customers for KFI
20 Cashmereno. The label for this product represented that it contained 12% cashmere. STR's test
21 results state that "[t]here was no cashmere" in the yarn sample. *See Ex. C.*

22 66. On August 31, 2006, STR issued a test report to one of KFI's customers for
23 Debbie Bliss Cashmereno Aran. The label for this product represented that it contained 12%
24 cashmere. STR's test results state that "[t]here was no cashmere" in the yarn sample. *See Ex. C.*

25 67. Despite these results -- and the results of other fiber tests conducted at the request
26 of the CCMi -- and in reliance upon the Defendants' representations made in Fall 2006 regarding

1 the accuracy of KFI's labels, Cascade took no further immediate actions in 2006. Nevertheless,
2 Cascade's lingering concerns remained and in 2010, it engaged Langley to conduct fiber tests of
3 certain of KFI's yarns. A true and correct copy of a May 15, 2010 report summarizing the results
4 of K.D. Langley's tests of KFI yarns from April 10, 2010 through May 15, 2010, including copies
5 of the labels of the yarns tested, is attached as **Exhibit D**. As detailed below, certain of the yarns
6 tested contained materially and literally false representations regarding the yarn products' true
7 fiber content.

8 68. On April 10, 2010, K.D. Langley issued a fiber content test report to Cascade for
9 Debbie Bliss Cashmerino Aran yarn. The label for this product represented that it contained 12%
10 cashmere. K.D. Langley's test results state that the yarn sample contained just 4.7% cashmere.
11 *See Ex. D* at 1.

12 69. On April 10, 2010, K.D. Langley issued a fiber content test report to Cascade for
13 Debbie Bliss Cashmerino Astrakan yarn. The label for this product represented that it contained
14 10% cashmere. K.D. Langley's test results state that the yarn sample contained 0% cashmere.
15 *See Ex. D* at 1.

16 70. On April 10, 2010, K.D. Langley issued a fiber content test report to Cascade for
17 Louisa Harding Kashmir Aran yarn. The label for this product represented that it contained 10%
18 cashmere. K.D. Langley's test results state that the yarn sample contained 0% cashmere. *See Ex.*
19 **D** at 1.

20 71. On April 10, 2010, K.D. Langley issued a fiber content test report to Cascade for
21 Noro Cash Iroha yarn. The label for this product represented that it contained 20% cashmere.
22 K.D. Langley's test results state that the yarn sample contained only 13.1% cashmere. *See Ex. D*
23 at 1.

24 72. On April 10, 2010, K.D. Langley issued a fiber content test report to Cascade for
25 Noro Silk Garden yarn. The label for this product represented that it contained 45% Kid Mohair.

1 K.D. Langley's test results state that the yarn sample contained only 30.0% Kid Mohair. *See Ex.*
2 *D* at 1.

3 73. On April 20, 2010, K.D. Langley issued a fiber content test report to Cascade for
4 Debbie Bliss Cashmerino Aran yarn. The label for this product represented that it contained 12%
5 cashmere. K.D. Langley's test results state that the yarn sample contained just 4.4% cashmere.
6 *See Ex. D* at 2 and 22.

7 74. On April 20, 2010, K.D. Langley issued a fiber content test report to Cascade for
8 Debbie Bliss Cashmerino Aran yarn. The label for this product represented that it contained 12%
9 cashmere. K.D. Langley's test results state that the yarn sample contained just 5.9% cashmere.
10 *See Ex. D* at 2 and 22.

11 75. On April 27, 2010, K.D. Langley issued a fiber content test report to Cascade for
12 Debbie Bliss Cashmerino Superchunky yarn. The label for this product represented that it
13 contained 12% cashmere. K.D. Langley's test results state that the yarn sample contained just
14 7.6% cashmere. *See Ex. D* at 2.

15 76. On April 27, 2010, K.D. Langley issued a fiber content test report to Cascade for
16 Noro Silk Garden yarn. The label for this product represented that it contained 45% Kid Mohair.
17 K.D. Langley's test results state that the yarn sample contained just 28.3% Kid Mohair. *See Ex.*
18 *D* at 2.

19 77. On April 27, 2010, K.D. Langley issued a fiber content test report to Cascade for
20 Queensland Collection Big Wave yarn. The label for this product represented that it contained
21 10% cashmere. K.D. Langley's test results state that the yarn sample contained just 4.9%
22 cashmere. *See Ex. D* at 2-3.

23 78. On April 27, 2010, K.D. Langley issued a fiber content test report to Cascade for
24 Queensland Collection Katmandu Aran Tweed yarn. The label for this product represented that it
25 contained 5% cashmere. K.D. Langley's test results state that the yarn sample contained only a
26 trace (~.3%) amount of cashmere. *See Ex. D* at 2-3.

1 79. On April 27, 2010, K.D. Langley issued a fiber content test report to Cascade for
2 Queensland Collection Katmandu DK Tweed yarn. The label for this product represented that it
3 contained 5% cashmere. K.D. Langley's test results state that the yarn sample contained only a
4 trace (~.6%) amount of cashmere. *See Ex. D* at 2-3.

5 80. On April 29, 2010, K.D. Langley issued a fiber content test report to Cascade for
6 Elizabeth Lavold Silky Cashmere yarn. The label for this product represented that it contained
7 45% cashmere. K.D. Langley's test results state that the yarn sample contained just 22.5%
8 cashmere. *See Ex. D* at 3.

9 81. On April 30, 2010, K.D. Langley issued a fiber content test report to Cascade for
10 Louisa Harding Kashmir Baby yarn. The label for this product represented that it contained 10%
11 cashmere. K.D. Langley's test results state that the yarn sample did not contain cashmere. *See*
12 *Ex. D* at 3.

13 82. On May 2, 2010, K.D. Langley issued a fiber content test report to Cascade for
14 Debbie Bliss Cashmerino Chunky yarn. The label for this product represented that it contained
15 12% cashmere. K.D. Langley's test results state that the yarn sample did not contain cashmere.
16 *See Ex. D* at 4.

17 83. On May 2, 2010, K.D. Langley issued a fiber content test report to Cascade for
18 Debbie Bliss Baby Cashmerino yarn. The label for this product represented that it contained 12%
19 cashmere. K.D. Langley's test results state that the yarn sample did not contain cashmere. *See*
20 *Ex. D* at 4.

21 84. On May 2, 2010, K.D. Langley issued a fiber content test report to Cascade for
22 Debbie Bliss Cashmerino Astrakhan yarn. The label for this product represented that it contained
23 10% cashmere. K.D. Langley's test results state that the yarn sample did not contain cashmere.
24 *See Ex. D* at 4.

25 85. On May 4, 2010, K.D. Langley issued a fiber content test report to Cascade for
26 Elsebeth Lavold Calm Wool yarn. The label for this product represented that it contained 30%

1 Camel hair. K.D. Langley's test results state that the yarn sample contained just 15.7% Camel
2 hair. *See Ex. D* at 4.

3 86. On May 8, 2010, K.D. Langley issued a fiber content test report to Cascade for
4 Louisa Harding Kashmir Aran yarn. The label for this product represented that it contained 10%
5 cashmere. K.D. Langley's test results state that the yarn sample contained just 3.0% cashmere.
6 *See Ex. D* at 5.

7 87. On May 8, 2010, K.D. Langley issued a fiber content test report to Cascade for
8 Louisa Harding Kashmir Aran yarn. The label for this product represented that it contained 10%
9 cashmere. K.D. Langley's test results state that the yarn sample contained just 2.4% cashmere.
10 *See Ex. D* at 5.

11 88. On May 8, 2010, K.D. Langley issued a fiber content test report to Cascade for
12 Louisa Harding Kashmir DK yarn. The label for this product represented that it contained 10%
13 cashmere. K.D. Langley's test results state that the yarn sample contained just 1.0% cashmere.
14 *See Ex. D* at 5.

15 89. On May 15, 2010, K.D. Langley issued a fiber content test report to Cascade for
16 Debbie Bliss Cashmerino Aran yarn. The label for this product represented that it contained 12%
17 cashmere. K.D. Langley's test results state that the yarn sample contained just 7.0% cashmere.
18 *See Ex. D* at 5.

19 90. On May 15, 2010, K.D. Langley issued a fiber content test report to Cascade for
20 Debbie Bliss Cashmerino Aran yarn. The label for this product represented that it contained 12%
21 cashmere. K.D. Langley's test results state that the yarn sample contained only a trace (~.4%)
22 amount of cashmere. *See Ex. D* at 6.

23 91. On information and belief, all of the yarns tested by K.D. Langley were sold
24 throughout the U.S., since at least 2006 and continuing through the present, by one or more of
25 Defendants using means of interstate and/or foreign commerce.
26

1 92. On information and belief, the representations contained on the labels of the yarn
2 products tested by K.D. Langley were made by one or more of Defendants through the use of
3 U.S. mail, since at least 2006 and continuing through the present, including, for example by
4 mailing price lists and/or catalogues to its customers.

5 93. On information and belief the representations contained on the labels of the yarn
6 products tested by K.D. Langley were made by Defendants through the use of interstate wires,
7 since at least 2006 and continuing through the present, including, for example by using electronic
8 mail, the worldwide web, telephones, cellular telephones and/or facsimile machines to distribute
9 price lists and/or catalogues to its customers.

10 **VI. KFI PERSISTS IN UNDERTAKING OTHER MISLABELING OF WOOL PRODUCTS SCHEMES**
11 **AND HAS CONTINUED TO UNDERTAKE NEW ONES.**

12 94. In the spring of 2006, Robert Dunbabin, Jr. telephoned Mr. Elalouf via cellular
13 telephone, and alerted him to the discovery that the product called Elsabeth Lavold Silky Wool
14 contained 20% or more of the synthetic fiber, Nylon, yet was labeled 65% wool and 35% silk.
15 Mr. Elalouf indicated that he was not surprised and volunteered that this product was sourced
16 from VVG, as if this fact alone would explain the discrepancy. When Mr. Dunbabin, Jr. informed
17 Mr. Elalouf that he expected him to correct this mislabeling, Mr. Elalouf responded by asking if
18 Cascade wanted KFI to test all of its yarns. Mr. Dunbabin, Jr. responded that appropriate testing
19 should be undertaken by KFI as soon as possible to ensure that its products were properly labeled.

20 95. Less than two weeks later, Mr. Elalouf telephoned Mr. Dunbabin, Jr. and stated
21 that the labeling issue would be publically corrected. After KFI informed stores that what was
22 sold to them as a natural fiber product was actually a synthetic fiber blend, KFI's sales of this
23 product decreased precipitously. Upon information and belief, KFI enjoyed a significant
24 competitive advantage on this product before the mislabeling was corrected.

25 96. In the Spring of 2010, KFI launched a new cashmere product for distribution
26 entitled Louisa Harding Aimee. Aimee is marketed and labeled as containing 90% cotton and

1 10% cashmere. Similar to Elsebeth Lavold Silky Wool, Emiee contains significant amounts of a
2 fiber not listed on the label. Notably, Aimee contains nearly 4% wool and has less than 7%
3 cashmere. This discrepancy provides defendants with a significant savings over manufacture of
4 the yarn contents as labeled.

5 **COUNT ONE**

6 **(Unfair Competition Under 15 U.S.C. § 1125(a))**

7 97. Cascade hereby incorporates by reference all previous allegations of this
8 Complaint as if specifically set forth herein.

9 98. As set forth above, Defendants have made and continue to make deceptive,
10 misleading and fraudulent statements the fiber content of yarn products sold throughout the U.S.
11 Such representations have been made through oral and written representations.

12 99. Defendants are in competition with Cascade.

13 100. Defendants past and ongoing harm of Cascade is continuing to the present and
14 foreseeable future, and is a serious and unmitigated hardship.

15 101. As a direct and proximate cause of Defendants' conduct, Cascade has been
16 damaged in an amount to be proven at the time of trial. Cascade will continue to suffer injury to
17 its goodwill, its rights and its business, unless and until Defendants are restrained from continuing
18 their wrongful acts.

19 **COUNT TWO**

20 **(False Advertising Under 15 U.S.C. § 1125(a))**

21 102. Cascade hereby incorporates by reference all previous allegations of this
22 Complaint as if specifically set forth herein.

23 103. As set forth above, Defendants have made and continue to make deceptive,
24 misleading and fraudulent statements the fiber content of yarn products sold throughout the U.S.
25 Additionally, Defendants have made and continue to make deceptive, misleading and fraudulent
26 statements in marketing materials, on their website(s) and in promotional materials, and in the

1 visual look and feel of product packaging and labeling, regarding the true content of certain of its
2 yarn products, including but not necessarily limited to the mislabeled products identified in this
3 Complaint. These statements are meant to influence customer into purchasing Defendants'
4 products to the exclusion of Cascade's products.

5 104. Defendants' past and ongoing harm of Cascade is continuing to the present and
6 foreseeable future, and is a serious and unmitigated hardship.

7 105. As a direct and proximate cause of Defendants' conduct, Cascade has been
8 damaged in an amount to be proven at the time of trial. Cascade will continue to suffer injury to
9 its goodwill, its rights and its business, unless and until Defendants are restrained from continuing
10 their wrongful acts.

11 **COUNT THREE**

12 **(Unfair Competition/Violation of the Washington Consumer Protection Act, RCW 19.86)**

13 106. Cascade hereby incorporates by reference all previous allegations of this
14 Complaint as if specifically set forth herein.

15 107. As set forth above, Defendants have made and continue to make deceptive,
16 misleading and fraudulent statements on labels of products sold throughout the U.S.
17 Additionally, Defendants have made and continue to make deceptive, misleading and fraudulent
18 statements marketing materials, on their website(s) and in promotional materials, and in the visual
19 look and feel of product packaging and labeling, regarding the true content of certain of its yarn
20 products, including but not necessarily limited to the mislabeled products identified in this
21 Complaint.

22 108. Such conduct constitutes unfair or deceptive acts or practices in trade or commerce
23 affecting public interest, capable of repetition, and caused Cascade to suffer injury to its business,
24 goodwill and reputation as a result of those unfair or deceptive practices.

COUNT FOUR

(Common Law Unfair Competition)

109. Cascade hereby incorporates by reference all previous allegations of this Complaint as if specifically set forth herein.

110. Defendants are in competition with Cascade.

111. As set forth above, Defendants have made and continue to make deceptive, misleading and fraudulent statements on labels of products sold throughout the U.S. Additionally, Defendants have made and continue to make deceptive, misleading and fraudulent statements in marketing materials, on their website(s) and in promotional materials, and in the visual look and feel of product packaging and labeling, regarding the true content of certain of its yarn products, including but not necessarily limited to the mislabeled products identified in this Complaint. These statements are meant to influence customers to purchase Defendants' products to the exclusion of Cascade's products.

112. Defendants' past and ongoing harm of Cascade continuing to the present and foreseeable future, and is a serious and unmitigated hardship.

113. As a direct and proximate cause of Defendants' conduct, Cascade has been damaged in an amount not totally ascertainable at this time. Cascade will continue to suffer injury to its goodwill, its rights and its business, unless and until Defendants are restrained from continuing their wrongful acts.

COUNT FIVE

(Injury to Business and Property Pursuant to Racketeer Influenced And Corrupt Organization Act)

114. Cascade hereby incorporates by reference all previous allegations of this Complaint as if specifically set forth herein.

115. Pursuant to 18 U.S.C. § 1964(c) of the Racketeer Influenced And Corrupt Organization Act, Cascade brings this action against Defendant Sion Elalouf.

1 116. On information and belief, Mr. Elalouf is employed by or associated, directly or
2 indirectly, with the enterprise, as described in the Complaint, in the conduct of the enterprise's
3 affairs through the pattern of racketeering activity as described in this Complaint.

4 117. Cascade is informed and believes that Defendants, individually and/or collectively,
5 constitute an enterprise as that term is defined in 18 U.S.C. § 1961.

6 118. On information and belief, after 1998, and continuing through the present, Mr.
7 Elalouf has knowingly and willfully conducted the affairs of the enterprise described by this
8 Complaint, including but not necessarily limited to directing the actions of KFI, through a pattern
9 of racketeering activities specified by 18 U.S.C. § 1961. This pattern of racketeering activity
10 consists of a least two racketeering acts, including without limitation, the following:

11 a) **Mail Fraud:**

- 12 1. Cascade hereby incorporates by reference all previous allegations of
13 this Complaint as if specifically set forth herein.
- 14 2. Mr. Elalouf participated in the fraudulent conduct that is the subject of
15 this Complaint knowing, or in reckless disregard of, the true fiber
16 content of certain of Defendants' yarn products, including but not
17 necessarily limited to the mislabeled products identified in this
18 Complaint. On information and belief, this conduct began in or around
19 2001, and certainly by 2006, and continues through the present.
- 20 3. In furtherance of this scheme, at different times, Mr. Elalouf caused to
21 be placed with, for delivery by, the U.S. Mail or other commercial
22 interstate carrier various documents wherein the fiber content of
23 Defendants' yarn products, including but not necessarily limited to the
24 mislabeled products identified in this Complaint, was materially
25 misstated.

- 1 4. For example, on July 20, 2006, under circumstances more particularly
2 known to Defendants, Mr. Elalouf caused the U.S. Postal Service to
3 deliver to as many as 2,000 yarn shops, a general letter addressing the
4 fiber contents of certain of KFI's yarn products. On information and
5 belief, the letter was sent with the purpose and intent of having these
6 yarn shops rely on the representations regarding the yarn's fiber content
7 and to induce the shops to purchase KFI products to the exclusion of
8 Cascade's products.
- 9 5. The July 20 letter, contained numerous material misleading statements
10 as well as misstatements of fact, including but not necessarily limited to
11 the following:
- 12 i. "a disgruntled competitor maliciously publish[ed] false and
13 defamatory statements that . . . Cashmerino . . . does not contain
14 cashmere" is materially misleading because the report was
15 based upon independent, objective and generally accepted
16 testing methods that determined the cashmere content of the
17 Debbie Bliss Cashmerino yarn tested to be 0%;
- 18 ii. the "Debbie Bliss's Cashmerino yarn contains cashmere" is
19 materially false in two ways: first, tested samples drawn from
20 retail inventories indicated the yarn contains 0% cashmere and,
21 second, KFI has yet to produce any test reporting contrary
22 findings based on samples drawn from stocks in any retail store
23 as of June 10, 2006;
- 24 iii. "TFT Limited . . . confirmed all six ...Cashmerino samples ...
25 contain cashmere" is materially misleading because TFT's test
26

- 1 report could state no more than “a quantity of cashmere” was
2 found and TFT did not say the quantity was the labeled 12%;
- 3 iv. “it is difficult to test accurately for cashmere content” is
4 materially false because, while fiber content analysis is a
5 specialized scientific endeavor, the fiber analysis field has
6 developed generally accepted procedures to assure the accuracy
7 and uniformity of testing results;
- 8 v. “when one uses a projection microscope to examine . . .
9 cashmere . . . blended with extrafine merino wool – both of
10 which have the same micron of approximately 18/19 – there
11 will be some fibers . . . identified as wool, some as cashmere
12 and others that are indeterminate” is materially false because,
13 on information and belief, expert fiber analysis distinguishes
14 fiber types by scale patterns (analogous to fingerprints) and not
15 micron count, which measures only fiber diameter and because
16 micron count is non-determinative of the fiber’s species of
17 origin; and
- 18 vi. “Stated simply, it is virtually impossible to differentiate
19 between Iranian cashmere and extrafine merino wool [as] the
20 two fibers have virtually the same characteristics” is materially
21 and recklessly false because the fiber analysis field functions for
22 the very purpose of identifying the animal species which
23 produced the fiber.

- 24 6. Additionally, on or around September 2006, under circumstances more
25 particularly known to Defendants, Mr. Elalouf caused the U.S. Postal
26 Service to deliver to as many as 2,000 yarn shops, a general letter,

1 signed by Ms. Bliss, addressing the fiber contents of certain of KFI's
2 Debbie Bliss branded yarn products. On information and belief, the
3 letter was sent with the purpose and intent of having these yarn shops
4 rely on the representations regarding the yarn's fiber content and to
5 induce the shops to purchase KFI products to the exclusion of
6 Cascade's products.

7 7. The September 2006 letter, contained numerous material, misleading
8 statements as well as misstatements of fact, including but not
9 necessarily limited to the following:

10 i. Designer Yarns "have initiated the most stringent state of the art
11 tests, including DNA, every one of which confirms the presence
12 of cashmere in the yarn" is a materially and recklessly
13 misleading statement in two respects. First, on information and
14 belief, DNA testing, as it existed in 2006, could only determine
15 the genus of animal which produced the fiber spun into yarn (*e.g.*, goat as opposed to sheep) and cannot distinguish the
16 specific species producing the fiber (*e.g.*, angora goat as
17 opposed to cashmere goat) – a fact known, or which should
18 have been known, to Ms. Bliss and Mr. Elalouf. Second, the
19 results of testing "initiated" by Designer Yarns on samples not
20 drawn from retailers' shelves is irrelevant to the fiber content of
21 yarns already sold to retailers for resale to consumers, a fact
22 known, or which should have been known, to Ms. Bliss and Mr.
23 Elalouf.
24

25 8. On information and belief, Mr. Elalouf has continuously and regularly
26 used the U.S. Postal Service and/or commercial carriers to deliver price

1 lists knowingly, or with reckless disregard for the truth,
2 misrepresenting the fiber content of certain of Defendants' yarn
3 products, including but not necessarily limited to the mislabeled
4 products identified in this Complaint. On information and belief, Mr.
5 Elalouf made these uses of the U.S. Postal Service and/or commercial
6 carriers with the intent of causing Yarn retailers to purchase
7 Defendants' yarn products to the exclusion of Cascade's products. On
8 information and belief, Mr. Elalouf has made these uses since 2001,
9 and certainly since 2006, and continuing to the present.

10 **b) Wire Fraud:**

- 11 1. Cascade hereby incorporates by reference all previous allegations of
12 this Complaint as if specifically set forth herein.
- 13 2. Mr. Elalouf participated in the fraudulent conduct that is the subject of
14 this Complaint knowing, or in reckless disregard of, the true fiber
15 content of certain of Defendants' yarn products, including but not
16 necessarily limited to the mislabeled products identified in this
17 Complaint. On information and belief, this conduct began in or around
18 2001, and certainly by 2006, and continues through the present.
- 19 3. In furtherance of this scheme, at different times, Mr. Elalouf materially
20 misrepresented the fiber content of certain of Defendants' yarn
21 products, including but not necessarily limited to the mislabeled
22 products identified in this Complaint, through the use of wire, radio, or
23 television communication in interstate or foreign commerce.
- 24 4. For example, on June 22, 2006, Mr. Elalouf represented to Robert
25 Dunbabin, Jr., in a cellular telephone conversation, that the type of
26 cashmere that he uses will not show up in tests and threatened litigation

1 if Cascade did publicly state that Debbie Bliss Cashmerino contained
2 the requisite amount of cashmere stated upon the label..

- 3 5. Additionally, on July 11, 2006, Mr. Klein, on information and belief at
4 the direction of Mr. Elalouf and in furtherance of the scheme described
5 in this Complaint, sent a letter by facsimile to Cascade's counsel
6 containing material factual misrepresentations or misleading
7 statements. Specifically, the July 11 fax contained misrepresentations
8 that certain of KFI's yarns contained cashmere.
- 9 6. Additionally, on information and belief, on July 20, 2006, to further the
10 scheme described in this Complaint, Mr. Elalouf caused the letter
11 discussed in ¶¶ 112(a)(4-5), which are incorporated herein, to be
12 transmitted by electronic mail to yarn retailers for which KFI possesses e-
13 mail addresses.
- 14 7. Additionally, on information and belief, on July 20, 2006, in
15 furtherance of the scheme described in this Complaint, Mr. Elalouf
16 directed a KFI employee Jeffrey Denecke to publish on the Internet
17 through the use of interstate wires the letter discussed in ¶¶ 112(a)(4-5),
18 which are incorporated herein, on the online *Knitter's Review* forum.
- 19 8. Additionally, on October 19, 2006, on information and belief, Mr.
20 Elalouf directed and caused Mr. Denecke to publish on the online
21 *Knitters Review* forum a letter addressing one of KFI's customer's, The
22 Knit With, decision to recall KFI yarn products due to their misleading
23 and/or false labels.
- 24 9. The October 19 online posting contained numerous material misleading
25 statements as well as misstatements of fact, including but not
26 necessarily limited the following:

- 1 i. “[T]here was never any reason for The Knit With to recall these
2 products in the first place” is materially false because, on
3 information and belief, as known to KFI in advance of the
4 recall, fiber analyses of Cashmerino samples drawn from The
5 Knit With’s inventory show the products supplied to The Knit
6 With contain a 0% cashmere content rendering such
7 Cashmerino stocks unsalable as labeled;
- 8 ii. Recent “[t]ests . . . *performed for KFI . . . confirm what KFI*
9 *has been saying all along – the products contain cashmere*”
10 (emphasis in original) is, on information and belief, a materially
11 false statement for two reasons: (1) none of the tests
12 ‘performed for KFI’ were performed on samples drawn from
13 The Knit With’s inventory or from stocks of any KFI-supplied
14 retailer and (2) tests performed on product samples available
15 only after the absence of cashmere content was detected can
16 hardly confirm the presence of cashmere in stocks supplied to
17 retailers by KFI before July, 2006 and as early as Fall 2001.
- 18 iii. “So KFI continues to stand behind the products, even issuing
19 . . . guarantees (sic) in the form prescribed by the FTC” is, on
20 information and belief, materially false statement vis-à-vis The
21 Knit With because KFI refused to provide Plaintiff a twice-
22 requested Guaranty of Compliance;
- 23 iv. The Knit With’s recall is a purposeful “smear campaign
24 targeting KFI’s products” is, on information and belief,
25 materially false because KFI had notice the recalled yarns in
26 question were found, at great expense to The Knit With, to not

1 be spun with the labeled quantity of cashmere and therefore
2 should never have been sold to consumers as labeled.

3 v. On information and belief, Mr. Elalouf has continuously and
4 regularly used interstate wires to deliver price lists knowingly,
5 or with reckless disregard for the truth, misrepresenting the
6 fiber content of certain of Defendants' yarn products, including
7 but not necessarily limited to the mislabeled products identified
8 in this Complaint, for example by representing the products'
9 fiber content on KFI's website, by sending out pricelists
10 through electronic mail and/or by sending out pricelists by
11 facsimile. On information and belief, Mr. Elalouf made these
12 uses of the interstate wires with the intent of causing yarn
13 retailers to purchase Defendants' yarn products to the exclusion
14 of Cascade's products. On information and belief, Mr. Elalouf
15 has made these uses since 2001, and certainly since 2006, and
16 continuing to the present.

17 **c) Money Laundering:**

- 18 1. Cascade hereby incorporates by reference all previous allegations of
19 this Complaint as if specifically set forth herein.
- 20 2. On information and belief, as a result of the scheme described in this
21 Complaint, Mr. Elalouf received payments for the sale of mislabeled
22 products.
- 23 3. On information and belief, beginning in or around 2001, and certainly
24 by 2006, and continuing through the present, subsequent to receiving
25 those payments, Mr. Elalouf attempted to and/or did conduct a financial
26 transactions involving those payments.

1 4. On information and belief, at the time Mr. Elalouf made or attempted to
2 make those financial transactions involving those payments, he knew
3 that the money involved in the transaction represented the proceeds of
4 the unlawful activity described in this Complaint.

5 5. On information and belief, Mr. Elalouf made or attempted to make
6 those financial transactions, with the intent of promoting the unlawful
7 conduct that is the subject of this Complaint.

8 **d) Travel:**

9 1. Cascade hereby incorporates by reference all previous allegations of
10 this Complaint as if specifically set forth herein.

11 2. On information and belief, beginning in or around 2001, and certainly
12 by 2006, and continuing through the present, in connection with and in
13 furtherance of the scheme describe in this Complaint, Mr. Elalouf
14 traveled domestically and internationally to locations including but not
15 limited to Columbus, Ohio, Indianapolis, Indiana, the United Kingdom
16 and Italy to promote, manage, establish, carry on, or facilitate the
17 promotion, management, establishment, or carrying on, of the scheme
18 described in this Complaint.

19 3. On information and belief, at the time Mr. Elalouf engaged in interstate
20 travel within the United States or internationally, he was engaging in
21 such travel in furtherance of the unlawful activity described in this
22 Complaint.

23 4. On information and belief, Mr. Elalouf engaged in interstate travel
24 within the United States or internationally, with the intent of promoting
25 the unlawful conduct that is the subject of this Complaint.
26

1 119. The numerous acts of racketeering activities particularized in ¶ 112 constitute a
2 pattern of racketeering activity beginning, on information and belief, in 2001 and continuing
3 though the present.

4 120. The numerous acts of racketeering activities particularized in ¶ 112 are related in
5 that they were all in furtherance of the fraudulent and misleading sale of deceptively and/or
6 falsely labeled yarn products.

7 121. The activities particularized in ¶ 112 illustrate Mr. Elalouf's regular way of
8 conducting the affairs of KFI. KFI's business, and the business of Defendants, which relate to the
9 creation, importation and wholesale distribution of hand knitting products, involves business
10 activities ordinarily distinct from racketeering acts.

11 122. The pattern of continuous racketeering activity particularized in ¶ 112 indicates
12 that Mr. Elalouf conducts, operates and/or manages KFI and/or the other Defendants as a
13 racketeering enterprise.

14 123. Cascade, on information and belief, alleges that Defendants' business affects
15 interstate and/or interstate commerce.

16 124. Cascade's business has been injured by reason of Mr. Elalouf's violation of section
17 1962(c) as alleged in this Complaint because, as a result of the racketeering activities, Cascade's
18 customers were deceived into purchasing KFI's products to the exclusion of Cascade's similar
19 products.

20 125. The harms resulting to Cascade by reason of Defendants' conducting or
21 participating in the conduct of KFI as a racketeering enterprise entitle Cascade, pursuant to 18
22 U.S.C. § 1964(c), to recover the full measure of statutory damages: threefold enhancement of
23 damages, litigation costs and attorney's fees.

COUNT SIX

**(Conspiracy to Cause Injury to Business and Property Pursuant to Racketeer Influenced
And Corrupt Organization Act)**

126. Cascade hereby incorporates by reference all previous allegations of this Complaint as if specifically set forth herein.

127. On a date more certainly known to Defendants, Defendants came to a mutual understanding to accomplish the unlawful plan to sell yarn products with false representations as to the products' fiber content as described in this Complaint ("Defendants' mutual understanding").

128. At the time of Defendants' mutual understanding, Defendants were employed by or associated with the enterprise as described by this Complaint.

129. At the time of Defendants' mutual understanding, Defendants were engaged in activities that affected interstate and/or foreign commerce.

130. Defendants knowingly and willfully entered into Defendants' mutual understanding by indicating, through their words and/or actions, their agreement to conduct or participate, directly or indirectly, in the conduct of the affairs of the enterprise described in this Complaint through a pattern of racketeering activity.

131. As described in this Complaint, Defendants committed overt acts to accomplish the goal of Defendants' mutual understanding.

PRAYER FOR RELIEF

WHEREFORE, Cascade respectfully request the Court enter judgment in their favor as follows:

(1) awarding damages for all injuries suffered as a result of Defendants' conduct, including from any Defendant, which is not a natural person but whose "corporate veil" is pierced;

(2) awarding treble damages pursuant to 18 U.S.C. §1964(c);

1 (3) awarding the reasonable costs of this suit, including attorneys' fees pursuant to 18
2 U.S.C. §1964(c) or any other applicable law;

3 (4) awarding disgorgement of wrongfully obtained profits in an amount to be
4 determined at trial;

5 (5) awarding exemplary damages in an amount to be determined at trial;

6 (6) awarding prejudgment interest in an amount to be determined at trial;

7 (7) awarding injunctive relief prohibiting Defendants from engaging in the conduct
8 described herein, including but not limited to prohibiting Defendants from misrepresenting the
9 fiber content of their yarn products; and

10 (8) such other and further relief to which Plaintiffs may be entitled.

11 SQUIRE, SANDERS & DEMPSEY L.L.P.
12 Dated: June 9, 2010

13 By: s/ Robert J. Guite
14 Robert J. Guite, WSBA No. 25753

15 Attorneys for Plaintiff
16 CASCADE YARNS, INC.
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